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VIA FEDERAL EXPRESS

June 23, 1997

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

Re: Comments to WT-Docket 97-82; DA-97-679:
Broadband PCS C and F Block Installment Payment Issues:
Duluth PCS, Inc., St. Joseph PCS, Inc., and West Virginia PCS, Inc.

Dear Mr. Caton:

Submitted herewith, are twelve(12) duplicates and one(1) original copy, on behalf of Duluth PCS, Inc., et al. each a licensee of numerous Personal Communications Services ("PCS") markets throughout the United States, are its comments in response to the Federal Communications Commission Public Notice, **WIRELESS TELECOMMUNICATIONS BUREAU SEEKS COMMENTS ON BROADBAND PCS C AND F BLOCK INSTALLMENT PAYMENT ISSUES**, WT Docket 97-82; DA 97-678, released June 2, 1997. These comments were inadvertently sent to and received by Mellon Bank on Monday, June 23, 1997. As such, it is respectfully requested that the Commission treat these comments as timely filed.

Should the Commission have any questions concerning these matters please contact the undersigned.

Sincerely,

Richard L. Vega, Jr.
President

Encl:

cc: Duluth PCS, Inc., et al.

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June 20, 1997

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Should the Commission have any questions concerning these matters please contact the undersigned.

Sincerely,

Richard L. Vega, Jr.
President

Encl:

cc: Duluth PCS, Inc., et al.
Honorable Chairman Reed Hundt
Honorable Commissioner James Quello
Honorable Commissioner Susan Ness
Honorable Commissioner Rachel Chong
(2) Auctions & Industry Analysis Division

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	WT Docket 97-82
Broadband PCS C and F Block	)	DA 97-679
	)	
Installment Payment Issues	)	
	)	

COMMENTS ON BROADBAND PCS C AND F BLOCK INSTALLMENT PAYMENT ISSUES

In response to WT Docket 97-82, these comments are submitted on behalf of Duluth PCS, Inc., St. Joseph PCS, Inc. and West Virginia PCS, Inc., ("Licensees" or "the Licensees"), winning C block bidders for Duluth, Minnesota and St. Joseph, Missouri as well as winning F block bidders for Parkersburg and Logan, West Virginia and Kirksville, Missouri. These comments are being filed by the President of these companies, Richard L. Vega, Sr.

Richard L. Vega, Sr. is also Chairman of The Richard L. Vega Group, Inc., a Telecommunications Engineering and Management Consulting Company that has been providing its services to the wireless industry for the past twenty-five years.

The aforementioned Licensees, in response to the Commission's request for "alternative proposals for calculating the present value of the broadband PCS C and F block debt to the government that would permit licensees to prepay the debt based on the net present value" offer proposals for the C and F block debt. ***The Licensees respectively request that the following proposals be adopted only for existing C and F block licensees with less than $40 million in annual gross revenue:***

C BLOCK DEBT RESTRUCTURE/PREPAYMENT PROPOSAL

- For secondary and tertiary markets (defined as markets outside of the top 100 markets in terms of population size), revalue the debt owed to the government by winning C block bidders to the average of the D and E block winning bids for the respective market, times a multiplier of 2.25, less all previous interest and principal payments which should be treated as if they were principal payments to arrive at the restructured debt balance. A multiplier is necessary to reflect the 30 MHz of bandwidth of the C block license versus the 10 MHz of bandwidth for the individual D and E block licenses. The multiplier to be applied to the average winning bids of the 10 MHz D and E block licenses should not be 3 for these markets. The rationale for this is that 10 MHz of spectrum is ample capacity to serve the public given the potential for 8 wireless carriers in these less densely populated markets. The use of a 2.25 multiplier would recognize the intrinsic value of additional spectrum for future wireless services that are not presently projected as revenue in a carriers' existing business planning model. Upon revaluing the debt, the FCC should provide the C block licensee with up to 1 year from the date of the restructuring to pay the new reduced debt balance. It is also recommended that interest would ***not*** accrue during the 1 year period (See Exhibit A for an example calculation).

- For top 100 markets, revalue the debt owed to the FCC by winning C block bidders to the average of the D and E block winning bids for the respective market, times a multiplier of 3, less all previous interest and principal payments which should be treated as if they were principal payments to arrive at the restructured debt balance. A multiplier of 3 is warranted for these markets to reflect the extreme difference in population density which ultimately would require a successful D and E block operator to acquire additional spectrum in order to further grow its customer base. Upon revaluing the debt, the FCC should provide the C block licensee with up to 1 year from the date of the restructuring to pay the new reduced debt balance. It is also recommended that interest would ***not*** accrue during the 1 year period.

F BLOCK DEBT RESTRUCTURE/PREPAYMENT PROPOSAL

- For all markets, the FCC should revalue the debt by discounting all of the cash outlays required of the licensee in each respective market under the existing financing plan utilizing a discount rate of between 15% to 20% and then subtract all previous interest and principal payments which should be treated as if they were principal payments in order to arrive at the restructured debt balance. A 15% to 20% discount rate should be utilized by the Commission to reflect the high uncertainty and risk that exists with respect to F block licensees being able to acquire the necessary capital to construct their systems and absorb extensive operating losses in the first few years of operations (as opposed to the large D and E block entities). The use of a discount rate of between 15% to 20% is appropriate given that high yield junk bonds and venture capital with their extreme cost of capital may be the only financing source available to truly small businesses desiring to participate in the industry. Upon revaluing the debt, the FCC should provide the F block licensees with up to 1 year from the date of the restructuring to pay the new reduced debt balance. It is also recommended that interest would ***not*** accrue during the 1 year period (See Exhibit B for an example calculation).

REQUEST FOR ADDITIONAL RELIEF

In addition to the aforementioned request to the Commission to allow the truly small business entities with C and F block licenses the opportunity to prepay their license debt under restructured terms, the Licensees also respectfully petition the Commission for the following on behalf of ***all*** C block and F block licensees:

- Extend all PCS license terms to 20 years to reduce the business risk of the existing licensees and prospective creditors that is associated with the licensee's ability to obtain the necessary capital investment in order to construct the PCS system and sustain the operation until the business is able to generate positive free cash flow.
- Modify the C block control group rules so that they afford a greater opportunity for existing licensees to transfer control of their licenses in order to attract the necessary capital investment to construct systems and absorb the extensive operating losses in the first few years of operation.
- Permit the transfer of C block licenses before the end of the 5 year holding period without "unjust

enrichment" payments in recognition of the high degree of risk that existing licensees have already undertaken in order to attempt to provide consumers with extensive competition for wireless service offerings. In so doing, the Commission would be assisting the industry's efforts to attract capital investment which is consistent with the public interest.

- Increase the level of foreign equity permitted to greater than 50% in order to avail existing licensees access to global equity markets. Given the large capital investment required to construct and operate competitive PCS systems, the existing rules are not appealing to foreign equity investment because minority interests do not allow for management control over the extensive capital that is at risk.

JUSTIFICATION FOR LICENSEES' PETITIONS TO THE COMMISSION

In response to Congressional direction, the Commission established blocks of frequencies that were to be reserved for Small Business entities (i.e. the C block and F block). During the comment period which established the PCS Rules, it was noted that the Small Business Administration defined a "Small Business" as an entity with less than $6 million in annual gross revenues.. However, the Commission permitted entities with an aggregate of up to $500 million in gross annual revenues to bid in the C and F blocks. What occurred thereafter is what we are commenting on today.

We respectfully submit that an entity having approximately $500 million in annual revenue is not a "Small Business" by any reasonable definition of the term to the average American citizen. We argue therefore that these large entities should not have been permitted to compete for the block C and F licenses and that their inclusion in the auction of the C and F block licenses harmed the true Small Business telecommunications entities such as Duluth PCS, Inc. and St. Joseph PCS, Inc. (auction participant known as the RLV-PCS I Partnership). We believe that the strategy of the large entities was to acquire as many of the top 100 markets at any price. We speculate that the underlying rationale for their overly aggressive bidding was that the markets when aggregated were worth more than the sum of the individual pieces. This thought process would be relative to an exit strategy to sell the operations in five to seven years to a deep pocketed player seeking entry into the wireless communications industry with a national footprint.

As a result of the aforementioned aggressive bidding by a small number of larger entities in the C block auction, other C block auction participants like the RLV-PCS I Partnership, which have less than $40 million in annual gross revenue, were precluded from executing a business strategy to acquire a single top 100 market which represented the best ***"value"*** or lowest price per pop. It was evident early on in the auction that a top 100 market was "out of reach" of the Licensees due to the aggressive bidding of a handful of large C block entities. Accordingly, the auction and business strategy of the Licensees had to be refocused on secondary and tertiary markets. Unfortunately, the Licensees found that even the bidding for these markets was intense, resulting in substantially higher than anticipated net winning bids. We speculate that there was more demand for these markets from other smaller entities which were also relegated to bidding only for the secondary and tertiary markets. Evidence of a small number of larger entities driving the true Small Business telecommunications entities to the auction sidelines is the fact that of the approximately 255 bidders that were originally qualified to bid in the C block auction, only 89 bidders survived to acquire 1 or more of the 493 available licenses. The C block auction resulted in 2 bidders alone accounting for 99 of the 493 licenses. Further, 15 bidders acquired 10 or more licenses. This group of 15 bidders accounted for 273 of the 493 licenses.

Evidence of the Licensees *"value"* bidding strategy is the fact that the Duluth, Minnesota and St. Joseph, Missouri C block licenses were acquired at an average net price of $11.45 per pop compared to the average net price for the entire C block of $39.88 and the net $30 to $65 range that emerged for the top 100 markets. While the Licensees' net bid prices were substantially higher than envisioned prior to the auction and for a different class of market, the Licensees nonetheless felt that its net bid price, being at the lower end of the C block auction range, would still allow it to obtain financing from the U.S. capital markets. This access to Wall Street was a crucial premise to the Licensees' business plan. Despite the significant equity contributions that were envisioned from the Licensees' investors, significant capital in the form of both debt and equity would have to be obtained in order to build out the PCS systems and absorb the extensive operating losses that were projected for the first few years of operation.

The Licensees were familiar with the status of the financial markets relative to PCS in 1995, and had a reasonable understanding of their future ability to access these markets to raise the balance of capital requirements after the auction. However, what was not anticipated was the inability of the Licensees to tap into the capital markets for the balance of their financial requirements after the auction with a revised Business Plan, despite their license debt being at the lower end of the auction range. The Licensees believe that the excessive bidding from the handful of larger entities and their related inability to also raise capital, combined with multiple defaults on license debt has resulted in a formidable cloud over the entire group of C block licensees which also extends to the F block licensees. Another factor contributing to the uneasiness of the capital markets with regard to the PCS industry is the Commission's apparent lack of concern for value paid for the spectrum. The Commission rushed to auction additional spectrum almost immediately following the C block auction, thereby creating a greater supply than demand. This, in turn, had a devaluing affect on the PCS spectrum due to additional competition for future products and services that PCS licensees felt would be exclusive to their bandwidth.

The inability of C block licensees to raise the additional capital that they so desperately need to remain viable entities is well known and the subject of many published articles in the national press as well as wireless industry publications. This situation has resulted in the capital markets assigning an even greater risk factor than that which was previously perceived for pioneering development stage companies such as ours in the wireless industry. Concrete evidence of this is the extremely lower net winning bids in the D, E and F block auction which averaged $3.75, $3.67 and $2.54 per pop respectively. In that auction, Small Business F block bidders were very much aware of the inability of C block licensees to procure financing and as a result bid accordingly. Clearly, bidders in the D, E and F block auction assigned a significantly higher discount rate to the underlying cash flow projections which supported their target spectrum acquisition prices. The higher discount rates were appropriate as a result of the future financing risk associated with the potential development of their systems and the rising glut of spectrum.

We respectively submit that the Commission should view spectrum as real estate. In the real estate industry, the present value of a property is almost exclusively determined from the recent selling prices of market comparables. The Licensees contend that the net present value of the C block license debt for the purpose of prepaying such debt may be found by simply utilizing the D and E block cash purchase prices for the respective markets as described more fully in our proposal. Licensees also respectively suggest that the cash flow requirements for the F block debt be discounted at a rate of between 15% to 20% to determine the net present value for the purpose of prepaying such debt as more fully described in our proposal.

CONCLUSION

In conclusion, the Licensees urge the Commission to develop special debt restructuring relief for those C and F block licensees which have less than $40 million in annual gross revenue. Such entities, for the most part, attempted to stay within their means during the respective auctions. These entities believed that the federal government desired the creativity and well managed operations that such entrepreneurs would bring to make wireless service more affordable to the American public. Unfortunately many of these entrepreneurial entities will fail if they are relegated to utilizing junk bonds and venture capital financing, with the associated extremely high cost of capital, for the balance of their capital requirements. We respectively contend that entities such as ours have been harmed by the auction process and will have almost no alternatives other than the use of high yield junk bonds or venture capital for the balance of our capital requirements. This is due to the inherent high degree of business failure risk perceived by the investment community as a result of a small business having to compete against the deep pocketed players in the industry such as AT&T Wireless, SprintCom and the Regional Bell Operating Companies.

On a procedural matter, the Licensees respectively submit that ***all*** C and F block licensees which submitted timely payments prior to the suspension of the installment payments be offered credit for the time value of their payments as a means to compensate such licensees for the cost of the government retaining their money during the period of payment suspension. We suggest that a 7% interest rate be utilized by the Commission for such purpose.

The Commission's favorable reaction to the Licensees' petitions is necessary in order for small development stage enterprises such as ours to realize the dream of owning and operating a successful wireless telecommunications concern.

Respectfully submitted,

Richard L. Vega, Sr.
President
Duluth PCS, Inc.
St. Joseph PCS, Inc.
West Virginia PCS, Inc.

EXHIBIT A
EXAMPLE C BLOCK DEBT RESTRUCTURE/PREPAYMENT PROPOSAL
FOR SECONDARY AND TERTIARY MARKETS

Example Market: Duluth, Minnesota

C Block Net Winning Bid		4,032,751
D Block Winning Bid	271,000	
E Block Winning Bid	565,001	
Total of D & E Block Winning Bids	836,001	
Average of D & E Block Winning Bids (Total of Block D & E Winning Bids Divided By 2)	418,001	
Multiplier	2.25	
Revaluation of C Block Debt (Average of D & E Block Winning Bids Times the Multiplier)	940,501	
Less:		
Principal Payments to Date	403,275	
Interest Payments to Date	136,603	
Restructured Debt Balance	400,624	

NOTE: For top 100 markets in terms of population size, the calculation is the same as above except for the use of a multiplier of 3.

EXHIBIT B
EXAMPLE F BLOCK DEBT RESTRUCTURE/PREPAYMENT PROPOSAL

Licensee with annual revenues of not more than $40 million dollars.
Parkersburg, West Virginia is used in this example.

Net Winning Bid	$76,509
Down Payment	$15,302
Balance Due	$61,207

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Cumulative Totals
Principal Payments	$15,302	$0	$5,966	$6,383	$6,830	$7,308	$7,820	$8,367	$8,953	$9,579	$76,509
Interest Payments (7%)	$4,284	$4,284	$4,284	$3,867	$3,420	$2,942	$2,430	$1,883	$1,297	$671	$29,363
Total	$19,586	$4,284	$10,250	$10,250	$10,250	$10,250	$10,250	$10,250	$10,250	$10,250	$105,872

Discounted Debt Payment Stream and Calculation of Restructured Debt Balance:

Discount Rate	15%	20%
Present Value of Payment Stream	$55,051	$46,611
Less: Principal Payments Paid to Date	$15,302	$15,302
Less: Interest Payments Paid to Date	$0	$0
Restructured Debt Balance	$39,749	$31,309